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National Security and
International Affairs Division

B-250714

November 6, 1992

The Honorable John Conyers, Jr.
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

The Honorable Edward M. Kennedy
Chairman, Subcommittee on Projection
Forces and Regional Defense
Committee on Armed Services
United States Senate

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As requested by your offices, we are providing the details of the Navy plans to use Public Law 102-298 funds and our evaluation of that planned use. This issue was discussed in our August 20, 1992, and September 10, 1992, briefings to your staffs on the Navy's plans and liabilities to terminate Seawolf class nuclear-powered submarine (SSN-21) program contracts.¹ A briefing report will also be issued.

BACKGROUND

Public Law 102-298: An Act Rescinding Certain Budget Authority, Fiscal Year 1992 (June 4, 1992), implicitly rejected the Administration's proposal to rescind funds appropriated for the SSN-22 through SSN-26. Specifically, the law rescinded \$1,150 million appropriated for the SSN-23 and effectively restored \$1,615.9 million. According to the accompanying conference report, the restoration provided \$1,075.7 million to construct the SSN-22 and \$540.2 million to preserve the submarine industrial base. The conference report also directed the Secretary of the Navy to use the \$540.2 million for (1) SSN-23 advance procurement, (2) restart of the Los Angeles class nuclear-powered submarine (SSN-688) program, or (3) any other

¹H.R. Conf. Rept. No. 102-530, 102d Cong., 2d sess. (1992).

GAO/NSIAD-93-41R, Seawolf Contract Terminations

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approach he deems to be most beneficial in preserving the current submarine industrial base.

The U.S. nuclear-powered submarine shipbuilding industrial base consists of General Dynamics' Electric Boat Division (Electric Boat), Groton, Connecticut; Tenneco's Newport News Shipbuilding and Dry Dock Company (Newport News Shipbuilding), Newport News, Virginia; nuclear component vendors; and thousands of other related supporting suppliers operating in all 50 states. Electric Boat builds only nuclear-powered submarines and estimates it will complete its present submarine construction work load in August 1997. Newport News Shipbuilding builds nuclear-powered aircraft carriers and submarines and estimates it will complete its present submarine construction work load in October 1995.

RESULTS IN BRIEF

Congressional conferees made \$540.2 million available to help preserve the industrial base for submarine construction. The Navy plans to use these funds to partially fund SSN-21 and SSN-22 cost growth and to purchase spare parts. The plan does not provide for advance procurement for the SSN-23, restart of the SSN-688 program, or provide any additional work to the submarine shipbuilding industrial base. Department of Defense (DOD) officials stated that DOD will not release the \$540.2 million to the Navy until a final decision has been made on the use of these funds. The final decision will not be made until January or February 1993, after an ongoing DOD shipbuilding industrial base study is completed in November 1992.

NAVY'S PROPOSED USE FOR THE \$540.2 MILLION

The Navy plans to use the \$540.2 million as follows:

- \$95.8 million is planned for spares, including a main propulsion unit, a ship service turbine generator, and propulsor components, and
- \$444.4 million for cost growth on the SSN-21 and SSN-22 construction.

The Navy, in developing its ship cost adjustment estimate for fiscal year 1993, identified that construction of the

SSN-21 and SSN-22 had experienced a \$646.2 million cost growth--\$330.8 million for the SSN-21 and \$315.4 million for the SSN-22. A breakdown of the cost growth for each submarine is shown in Table 1.

Table 1: SSN-21 and SSN-22 Cost Growth by Category

Dollars in millions

| Growth category | SSN-21 | SSN-22 |
|--------------------------------------|---------|---------|
| Cost over contract target | \$129.8 | \$96.1 |
| Escalation | 66.7 | 46.3 |
| HY-100 steel welding problem | 58.8 | 0 |
| Change orders | 23.3 | 0 |
| Government furnished equipment/other | 52.2 | 14.1 |
| Design and construction plans | 0 | 100.4 |
| Stop work impact | 0 | 37.9 |
| Newport News material costs | 0 | 20.6 |
| Total | \$330.8 | \$315.4 |

According to the Navy, it planned to fund the cost growth, in part, with \$444.4 million provided under Public Law 102-298 and \$179.4 million surplus in fiscal year 1991 SSN-23 through SSN-25 advance procurement funds. The Navy has not provided an explanation on how it will satisfy the remaining cost growth need of \$22.4 million.

SCOPE AND METHODOLOGY

We interviewed Navy officials and obtained and analyzed SSN-21 program documents to determine and evaluate the Navy's proposed use of the \$540.2 million.

As requested, we did not obtain written agency comments on this letter. However, we discussed our findings with responsible Department of Defense and Navy officials and have included their comments where appropriate. The officials generally agreed with the facts in this letter.

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We conducted our review between June 1992 and September 1992 in accordance with generally accepted government auditing standards.

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As agreed with your offices, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to the Chairmen and Ranking Minority Members, Senate Committee on Governmental Affairs, House Committee on Government Operations, Senate and House Committees on Appropriations and on Armed Services; the Director, Office of Management and Budget; and the Secretaries of Defense and the Navy. Copies will be made available to others upon request.

Please contact me on (202) 275-6504 if you or your staffs have any questions. Other major contributors are listed in enclosure 1.

Richard Davis
Richard Davis
Director, Navy Issues

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ENCLOSURE 1

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MAJOR CONTRIBUTORS TO THIS REPORT

NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION,
WASHINGTON, D.C.

Norman J. Rabkin, Associate Director
Frederick A. Bigden, Assistant Director
Fred P. Fenstermaker, Advisor
Jeffrey D. Grant, Evaluator

BOSTON REGIONAL OFFICE

Jeffrey V. Rose, Regional Management Representative
Vincent J. Forte, Evaluator-in-Charge
Kelly L. Cecil, Evaluator

(394484)
(394502)

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